

**REPORT OF THE AUDIT OF THE
FORMER LETCHER COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

May 31, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER LETCHER COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

May 31, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for the former Letcher County Sheriff as of May 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected net taxes of \$4,717,211 for the districts for 2000 taxes. The former Sheriff distributed taxes of \$4,532,921 to the districts for 2000 Taxes. Taxes of \$283 are due to the districts from the former Sheriff and refunds of \$16,874 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$436,892 And Should Have Entered Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were not adequately insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2000 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Carroll A. Smith, Letcher County Judge/Executive
Honorable Stephen T. Banks, Former Letcher County Sheriff
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the former Letcher County Sheriff's Settlement - 2000 Taxes as of May 31, 2001. This tax settlement is the responsibility of the former Letcher County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Letcher County Sheriff's taxes charged, credited, and paid as of May 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Carroll A. Smith, Letcher County Judge/Executive
Honorable Stephen T. Banks, Former Letcher County Sheriff
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$436,892 And Should Have Entered Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 18, 2003

LETCHER COUNTY
STEPHEN T. BANKS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

May 31, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 389,375	\$ 389,375	\$ 1,392,884	\$ 419,098
Tangible Personal Property	147,711	119,116	462,210	391,567
Intangible Personal Property				31,853
Fire Protection	3,939			
Franchise Corporation	103,286	85,913	334,215	
Additional Billings	1,126	1,114	4,165	2,014
Unmined Coal - Additional Billings	7,157	7,320	30,296	8,025
Unmined Coal - 2000 Taxes	124,808	124,807	454,311	134,335
Oil and Gas Property Taxes	21,536	21,536	74,637	23,180
Limestone, Sand, and Mineral Reserves	846	846	2,931	910
Penalties	4,717	4,635	16,573	5,142
Adjusted to Sheriff's Receipt	(235)	(41)	1,769	(97)
Gross Chargeable to Sheriff	<u>\$ 804,266</u>	<u>\$ 754,621</u>	<u>\$ 2,773,991</u>	<u>\$ 1,016,027</u>
<u>Credits</u>				
Exonerations	\$ 11,359	\$ 10,891	\$ 38,867	\$ 18,221
Discounts	9,031	8,484	31,245	13,579
Delinquents:				
Real Estate	49,870	49,868	178,608	53,685
Tangible Personal Property	3,869	3,120	11,663	9,437
Intangible Personal Property				2,737
Uncollected Franchise	<u>24,665</u>	<u>20,579</u>	<u>81,916</u>	
Total Credits	<u>\$ 98,794</u>	<u>\$ 92,942</u>	<u>\$ 342,299</u>	<u>\$ 97,659</u>

The accompanying notes are an integral part of the financial statement.

LETCHER COUNTY
STEPHEN T. BANKS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES
May 31, 2001
(Continued)

	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Net Tax Yield	\$ 705,472	\$ 661,679	\$ 2,431,692	\$ 918,368
Less: Commissions *	<u>30,270</u>	<u>28,121</u>	<u>89,735</u>	<u>39,318</u>
Net Taxes Due	\$ 675,202	\$ 633,558	\$ 2,341,957	\$ 879,050
Taxes Paid	674,375	632,868	2,345,090	880,588
Less Credit For Commissions Per KRS 134.290				9,253
Less Refunds (Current and Prior Year)	<u>715</u>	<u>641</u>	<u>2,354</u>	<u>474</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 112</u>	<u>\$ 49</u>	<u>\$ (5,487)</u>	<u>\$ (11,265)</u>
* Commissions:				
10% on \$ 10,000				
4.25% on \$ 2,275,519				
4% on \$ 1,678,410				
3% on \$ 753,282				
** Special Taxing Districts:				
Library District		\$ (58)		
Health District		171		
Extension District		<u>(64)</u>		
Due Districts or (Refunds Due Sheriff)		<u>\$ 49</u>		

The accompanying notes are an integral part of the financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

May 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff's office and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LETCHER COUNTY
NOTES TO THE FINANCIAL STATEMENT
May 31, 2001
(Continued)

Note 2. Deposits (Continued)

As of May 31, 2001, bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond. However, on November 7, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$436,892 of public funds uninsured and unsecured. In addition, the former Sheriff did not have a written agreement with the depository institution securing the former Sheriff's interest in the collateral.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 18, 2000 through May 31, 2001.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2000. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2000 through May, 31, 2001.

Note 4. Interest Income

The former Letcher County Sheriff earned \$7,453 as interest income on 2000 taxes. As of May 31, 2001, the former Sheriff owed \$3,649 in interest to the school districts and \$3,804 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Letcher County Sheriff collected \$25,565 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office.

Note 6. Advertising Costs And Fees

The former Letcher County Sheriff collected \$552 of advertising costs and \$1,625 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the former Sheriff's office.

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
STEPHEN T. BANKS, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

May 31, 2001

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$436,892 And Should Have Entered Into A Written Agreement To Protect Deposits

On November 7, 2000, \$436,892 of the former Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff should have required the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We recommend the Sheriff's office enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Former Sheriff's Response:

Now complying.

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff's Response:

Due to small office staff, segregation of duties is not possible.

LETCHER COUNTY
STEPHEN T. BANKS, SHERIFF
COMMENTS AND RECOMMENDATIONS
May 31, 2001
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$2,214,001 And Enter Into A Written Agreement To Protect Deposits

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Carroll A. Smith, Letcher County Judge/Executive
Honorable Stephen T. Banks, Former Letcher County Sheriff
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Letcher County Sheriff's Settlement - 2000 Taxes as of May 31, 2001, and have issued our report thereon dated February 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Letcher County Sheriff's Settlement - 2000 Taxes as of May 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance which is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$436,892 And Should Have Entered Into A Written Agreement To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Letcher County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 18, 2003

